

Message Text

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ACTION EA-14

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TO SECSTATE WASHDC 7761

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E.O. 12:52: GDS

TAGS: ENRG

SUBJECT: THAI INITIATIVES TO SECURE CRUDE OIL

REF: STATE 200780

1. SUMMARY. TWO LEADING FIGURES IN THAI OIL REFINERY BUSINESS TOLD EMBOFF RTG ATTEMPT TO PURCHASE CRUDE DIRECTLY FROM PRODUCER COUNTRIES RESULTED FROM DISAGREEMENT WITH FOREIGN OIL COMPANIES IN THAILAND OVER DOMESTIC PRICES OF REFINED PRODUCTS. SINCE RTG ATTEMPT TO PURCHASE CRUDE FAILED, INDUSTRY SOURCES EXPECTED A CHASTENED RTG TO ACCEPT

NECESSITY OF HIGHER PRICES FOR PETROLEUM PRODUCTS. INDUSTRY MINISTER OF NEW GOVERNMENT HAS PUBLICLY DENIED RTG HAS ANY INTENTION OF TRADING DIRECTLY IN CRUDE OIL. END SUMMARY.

2. THAILAND REMAINS ALMOST TOTALLY DEPENDENT ON IMPORTS OF CRUDE OIL WITH LESS THAN .2 PERCENT OF TOTAL PETROLEUM CON-
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SUMPTION IN

THAILAND COMING FROM DOMESTIC CRUDE OIL SOURCES. RTG OFFICIALS REALIZED SEVERAL MONTHS AGO VULNERABILITY OF NATION TO INTERRUPTIONS IN CRUDE OIL SUPPLY, SEARCH BEGAN FOR IMPROVED SECURITY OF SUPPLY.

3. A SPECIFIC CONCERN WAS ASSURED SUPPLY FOR 65,000 BBL/DAY GOVERNMENT OWNED REFINERY AT BANGCHAK THAT IS MANAGED BY A RELATIVELY SMALL AMERICAN FIRM, SUMMIT PETROLEUM. BECAUSE SUMMIT HAS NO LONG TERM CONTRACTS FOR CRUDE, AND IN THE PAST HAD BENEFITTED FROM SPOT BUYING, IT IS EXCEPTIONALLY SUBJECT TO SHIFTS IN AVAILABILITY OF CRUDE OIL AS IN PRICE.

4. GENERAL MANAGER OF SUMMIT PETROLEUM TOLD EMBOFF THAT RTG FIXED PRICE FOR SALE OF REFINED PETROLEUM PRODUCTS. IN THAILAND THREATENED HIS COMPANY'S ABILITY TO MAKE A PROFIT. DESPITE RISE IN CRUDE OIL PRICES, RTG KEPT CEILING ON DOMESTIC PRICES FOR REFINED PRODUCTS, AND SUMMIT REMAINED CONTRACTUALLY OBLIGATED TO OPERATE BANGCHAK REFINERY FOR RTG DESPITE OPERATING LOSSES.

5. SUMMIT DECIDED TO FORCE RTG'S HAND BY CHALLENGING IT TO SECURE CRUDE OIL FOR BANGCHAK REFINERY AT BELOW OPEN MARKET PRICE. SUMMIT'S HOPE WAS THAT RTG WOULD SEE THE REALITY OF THE PRICE FOR CRUDE AND AGREE TO A DOMESTIC PRICE FOR REFINED THAT WOULD MAKE REFINERY OPERATIONS PROFITABLE. IF NO RELIEF COULD BE OBTAINED THEN SUMMIT WAS PREPARED TO RENEGE ON MANAGEMENT CONTRACT AND FACE RTG WITH CLOSURE OF GOVERNMENT REFINERY THAT ACCOUNTS FOR 40 PERCENT OF TOTAL REFINERY CAPACITY IN THAILAND AND SUPPLIES 36 PERCENT OF THAILAND'S DAILY PETROLEUM PRODUCT CONSUMPTION.

6. OTHER OIL COMPANIES ALSO UNHAPPY WITH RTG FIXED PRICES FOR PETROLEUM PRODUCTS. ACCORDING TO ESSO SOURCE IT MADE MAJOR EFFORT TO FORCE RTG TO RAISE PRICES FOR PETROLEUM, AND WHEN THIS FAILED IT FROZE FURTHER INVESTMENTS IN THAILAND PLUS PARING DOWN STAFF BY 20 PERCENT.

7. RTG'S RESPONSE TO SUMMIT'S CHALLENGE AND TO ESSO'S UNHAPPINESS WITH FIXED PETROLEUM PRICES WAS HEAVILY PUBLICIZED STATEMENTS ABOUT LIMITED OFFICIAL USE

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TAKING OVER CRUDE OIL TRADE AND THE BARTERING OF RICE FOR CHEAPER OIL.

8. THAILAND INTERNATIONAL PETROLEUM COMPANY (TIPCO) ATTEMPTED TO BENEFIT FROM THIS SITUATION. ITS LONG DORMANT PROPOSAL TO BUILD NEW 100,000 BBL/DAY REFINERY WAS REACTIVATE.

9. CRITICAL OIL INDUSTRY SOURCES IN BANGKOK TOLD EMBOFF THAT TIPCO

OFFICIALS WERE HOPING TO CAPITALIZE ON SITUATION BY SELLING ADDITIONAL

STOCK AT HIGHER PRICES. GREAT SKEPTICISM CONTINUES THAT TIPCO EVER
WILL BUILD REFINERY DESPITE THE CERTAINTY THAT THE RAPIDLY GROWING
DEMAND FOR PETROLEUM PRODUCTS IN THAILAND WILL MAKE ADDITIONAL
REFINERY CAPACITY NECESSARY FAIRLY SOON. MOREOVER, COL. NARONG, WHO
CAPTURED HEADLINES JUST BEFORE HIS DEPARTURE WITH ANNOUNCEMENTS OF
PROFITABLE RICE BARTER DEALS WITH KUWAIT, WAS REPORTED BY THESE
SAME SOURCES
TO BE HEAVILY INVOLVED WITH TIPCO.

10. MINISTER OF INDUSTRY IN NEW GOVERNMENT, WAS DEPUTY MINISTER
OF COMMERCE IN OLD, HAS BEEN REPORTED IN PRESS AS STATING RTG
SHOULD NOT ENTER TRADE IN CRUDE OIL. STAGE THEREFORE SEEMS TO BE
SET FOR COMPROMISE AGREEMENT BETWEEN OIL COMPANIES AND RTG ON MORE RE-
ALISTIC
DOMESTIC OIL PRICE THAT MORE ACCURATELY REFLECTS DEMONSTRABLY IN-
CREASED COST OF CRUDE. HOWEVER, NEW GOVERNMENT, WHICH HAS INHERITED
INFLATIONARY ECONOMY AND ALSO REPRESENTS HOPES OF MANY FOR A BETTER
DEAL FOR THE AVERAGE MAN, WILL BE UNDER GREAT PRESSURE TO TAKE STEPS
TO HOLD DOWN THE COST OF LIVING. HARD BARGAINING WITH OIL COMPANIES
SHOULD BE ANTICIPATED AS A RESULT.
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